LO10 **EXERCISE 10.13**
Pension Plans

At the end of the current year, Western Electric received the following information from its actuarial firm:

Pension expense	$2,500,000
Postretirement benefits expense	750,000

The pension plan is fully funded. Western Electric has funded only $50,000 of the nonpension postretirement benefits this year.

a. Prepare the journal entry to summarize pension expense for the entire year.

b. Prepare the journal entry to summarize the nonpension postretirement benefits expense for the entire year.

c. If the company becomes illiquid in future years, what prospects, if any, do today's employees have of receiving the pension benefits that they have earned to date?

d. Does the company have an ethical responsibility to fully fund its nonpension postretirement benefits?

LO10 **EXERCISE 10.14**
Deferred Income Taxes

The following journal entry summarizes for the current year the income tax expense of Wilson's Software Warehouse:

Income Tax Expense	1,500,000	
Cash		960,000
Income Tax Payable		340,000
Deferred Income Tax		200,000
To record income tax expense for the current year.		

Of the deferred income taxes, only $30,000 is classified as a current liability.

a. Define the term *deferred income tax.*

b. What is the amount of income tax that the company has paid or expects to pay in conjunction with its income tax return for the current year?

c. Illustrate the allocation of the liabilities shown in the above journal entry between the classifications of current liabilities and long-term liabilities.

LO8 **EXERCISE 10.15**
Examining **Home Depot**'s Capital Structure

To answer the following questions use the financial statements for **Home Depot, Inc.**, in Appendix A at the end of the textbook:

a. Compute the company's current ratio and quick ratio for the most recent year reported. Do these ratios provide support that **Home Depot** is able to repay its current liabilities as they come due? Explain.

b. Compute the company's debt ratio. Does **Home Depot** appear to have excessive debt? Explain.

c. Examine the company's statement of cash flows. Does **Home Depot**'s cash flow from operating activities appear adequate to cover its current liabilities as they come due? Explain.

Problem Set A

LO1 through LO6 LO8 **PROBLEM 10.1A**
Effects of Transactions on Financial Statements

Fifteen transactions or events affecting Computer Specialists, Inc., are as follows:

a. Made a year-end adjusting entry to accrue interest on a note payable.

b. A liability classified for several years as long-term becomes due within the next 12 months.

c. Recorded the regular biweekly payroll, including payroll taxes, amounts withheld from employees, and the issuance of paychecks.

d. Earned an amount previously recorded as unearned revenue.

THE HOME DEPOT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

amounts in millions, except per share data	Fiscal Year Ended[1] January 31, 2010	February 1, 2009	February 3, 2008
NET SALES	**$ 66,176**	$ 71,288	$ 77,349
Cost of Sales	**43,764**	47,298	51,352
GROSS PROFIT	**22,412**	23,990	25,997
Operating Expenses:			
Selling, General and Administrative	**15,902**	17,846	17,053
Depreciation and Amortization	**1,707**	1,785	1,702
Total Operating Expenses	**17,609**	19,631	18755
OPERATING INCOME	**4,803**	4,359	7,242
Interest and Other (Income) Expense:			
Interest and Investment Income	**(18)**	(18)	(74)
Interest Expense	**676**	624	696
Other	**163**	163	—
Interest and Other, net	**821**	769	622
EARNINGS FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	**3,982**	3,590	6,620
Provision for Income Taxes	**1,362**	1,278	2,410
EARNINGS FROM CONTINUING OPERATIONS	**2,620**	2,312	4,210
EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	**41**	(52)	185
NET EARNINGS	**$ 2,661**	$ 2,260	$ 4,395
Weighted Average Common Shares	**1,683**	1,682	1,849
BASIC EARNINGS PER SHARE FROM CONTINUING OPERATIONS	**$ 1.56**	$ 1.37	$ 2.28
BASIC EARNINGS (LOSS) PER SHARE FROM DISCONTINUED OPERATIONS	**$ 0.02**	$ (0.03)	$ 0.10
BASIC EARNINGS PER SHARE	**$ 1.58**	$ 1.34	$ 2.38
Diluted Weighted Average Common Shares	**1,692**	1,686	1,856
DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS	**$ 1.55**	$ 1.37	$ 2.27
DILUTED EARNINGS (LOSS) PER SHARE FROM DISCONTINUED OPERATIONS	**$ 0.02**	$ (0.03)	$ 0.10
DILUTED EARNINGS PER SHARE	**$ 1.57**	$ 1.34	$ 2.37

(1) Fiscal years ended January 31, 2010 and February 1, 2009 include 52 weeks. Fiscal year ended February 3, 2008 includes 53 weeks.

See accompanying Notes to Consolidated Financial Statements.

THE HOME DEPOT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

amounts in millions, except share and per share data	January 31, 2010	February 1, 2009
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 1,421	$ 519
Short-Term Investments	6	6
Receivables, net	964	972
Merchandise Inventories	10,188	10,673
Other Current Assets	1,321	1,192
Total Current Assets	13,900	13,362
Property and Equipment, at cost:		
Land	8,451	8,301
Buildings	17,391	16,961
Furniture, Fixtures and Equipment	9,091	8,741
Leasehold Improvements	1,383	1,359
Construction in Progress	525	625
Capital Leases	504	490
	37,345	36,477
Less Accumulated Depreciation and Amortization	11,795	10,243
Net Property and Equipment	25,550	26,234
Notes Receivable	33	36
Goodwill	1,171	1,134
Other Assets	223	398
Total Assets	$ 40,877	$ 41,164
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 4,863	$ 4,822
Accrued Salaries and Related Expenses	1,263	1,129
Sales Taxes Payable	362	337
Deferred Revenue	1,158	1,165
Income Taxes Payable	108	289
Current Installments of Long-Term Debt	1,020	1,767
Other Accrued Expenses	1,589	1,644
Total Current Liabilities	10,363	11,153
Long-Term Debt, excluding current installments	8,662	9,667
Other Long-Term Liabilities	2,140	2,198
Deferred Income Taxes	319	369
Total Liabilities	21,484	23,387
STOCKHOLDERS' EQUITY		
Common Stock, par value $0.05; authorized: 10 billion shares; issued: 1.716 billion shares at January 31, 2010 and 1.707 billion shares at February 1, 2009; outstanding: 1.698 billion shares at January 31, 2010 and 1.696 billion shares at February 1, 2009	86	85
Paid-In Capital	6,304	6,048
Retained Earnings	13,226	12,093
Accumulated Other Comprehensive Income (Loss)	362	(77)
Treasury Stock, at cost, 18 million shares at January 31, 2010 and 11 million shares at February 1, 2009	(585)	(372)
Total Stockholders' Equity	19,393	17,777
Total Liabilities and Stockholders' Equity	$ 40,877	$ 41,164

See accompanying Notes to Consolidated Financial Statements.

THE HOME DEPOT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

amounts in millions, except per share data	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Stockholders' Equity	Total Comprehensive Income
BALANCE, JANUARY 28, 2007	2,421	$ 121	$ 7,930	$ 33,052	$ 310	(451)	$(16,383)	$ 25,030	
Cumulative Effect of the Adoption of FIN 48	—	—	—	(111)	—	—	—	(111)	
Net Earnings	—	—	—	4,395	—	—	—	4,395	$ 4,395
Shares Issued Under Employee Stock Plans	12	1	239	—	—	—	—	240	
Tax Effect of Sale of Option Shares by Employees	—	—	4	—	—	—	—	4	
Translation Adjustments	—	—	—	—	455	—	—	455	455
Cash Flow Hedges, net of tax	—	—	—	—	(10)	—	—	(10)	(10)
Stock Options, Awards and Amortization of Restricted Stock	—	—	206	—	—	—	—	206	
Repurchase of Common Stock	—	—	—	—	—	(292)	(10,815)	(10,815)	
Retirement of Treasury Stock	(735)	(37)	(2,608)	(24,239)	—	735	26,884	—	
Cash Dividends ($0.90 per share)	—	—	—	(1,709)	—	—	—	(1,709)	
Other	—	—	29	—	—	—	—	29	
Comprehensive Income									$ 4,840
BALANCE, FEBRUARY 3, 2008	1,698	$ 85	$ 5,800	$ 11,388	$ 755	(8)	$ (314)	$ 17,714	
Net Earnings	—	—	—	2,260	—	—	—	2,260	$ 2,260
Shares Issued Under Employee Stock Plans	9	—	68	—	—	—	—	68	
Tax Effect of Sale of Option Shares by Employees	—	—	7	—	—	—	—	7	
Translation Adjustments	—	—	—	—	(831)	—	—	(831)	(831)
Cash Flow Hedges, net of tax	—	—	—	—	(1)	—	—	(1)	(1)
Stock Options, Awards and Amortization of Restricted Stock	—	—	176	—	—	—	—	176	
Repurchase of Common Stock	—	—	—	—	—	(3)	(70)	(70)	
Cash Dividends ($0.90 per share)	—	—	—	(1,521)	—	—	—	(1,521)	
Other	—	—	(3)	(34)	—	—	12	(25)	
Comprehensive Income									$ 1,428
BALANCE, FEBRUARY 1, 2009	1,707	$ 85	$ 6,048	$ 12,093	$ (77)	(11)	$ (372)	$ 17,777	
Net Earnings	—	—	—	2,661	—	—	—	2,661	$ 2,661
Shares Issued Under Employee Stock Plans	9	1	57	—	—	—	—	58	
Tax Effect of Sale of Option Shares by Employees	—	—	(2)	—	—	—	—	(2)	
Translation Adjustments	—	—	—	—	426	—	—	426	426
Cash Flow Hedges, net of tax	—	—	—	—	11	—	—	11	11
Stock Options, Awards and Amortization of Restricted Stock	—	—	201	—	—	—	—	201	
Repurchase of Common Stock	—	—	—	—	—	(7)	(213)	(213)	
Cash Dividends ($0.90 per share)	—	—	—	(1,525)	—	—	—	(1,525)	
Other	—	—	—	(3)	2	—	—	(1)	2
Comprehensive Income									$ 3,100
BALANCE, JANUARY 31, 2010	1,716	$ 86	$ 6,304	$ 13,226	$ 362	(18)	$ (585)	$ 19,393	

See accompanying Notes to Consolidated Financial Statements.

THE HOME DEPOT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

amounts in millions	Fiscal Year Ended[(1)] January 31, 2010	February 1, 2009	February 3, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Earnings	$ 2,661	$ 2,260	$ 4,395
Reconciliation of Net Earnings to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	1,806	1,902	1,906
Impairment Related to Rationalization Charges	—	580	—
Impairment of Investment	163	163	
Stock-Based Compensation Expense	201	176	207
Changes in Assets and Liabilities, net of the effects of acquisitions and disposition:			
(Increase) Decrease in Receivables, net	(23)	121	116
Decrease (Increase) in Merchandise Inventories	625	743	(491)
Decrease (Increase) in Other Current Assets	4	(7)	109
Increase (Decrease) in Accounts Payable and Accrued Expenses	59	(646)	(465)
Decrease in Deferred Revenue	(21)	(292)	(159)
(Decrease) Increase in Income Taxes Payable	(174)	262	—
Decrease in Deferred Income Taxes	(227)	(282)	(348)
(Decrease) Increase in Other Long-Term Liabilities	(19)	306	186
Other	70	242	271
Net Cash Provided by Operating Activities	5,125	5,528	5,727
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital Expenditures, net of $10, $37 and $19 of non-cash capital expenditures in fiscal 2009, 2008 and 2007, respectively	(966)	(1,847)	(3,558)
Proceeds from Sale of Business, net	—	—	8,337
Payments for Businesses Acquired, net	—	—	(13)
Proceeds from Sales of Property and Equipment	178	147	318
Purchases of Investments	—	(168)	(11,225)
Proceeds from Sales and Maturities of Investments	33	139	10,899
Net Cash (Used in) Provided by Investing Activities	(755)	(1,729)	4,758
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Repayments of) Proceeds from Short-Term Borrowings, net	—	(1,732)	1,734
Repayments of Long-Term Debt	(1,774)	(313)	(20)
Repurchases of Common Stock	(213)	(70)	(10,815)
Proceeds from Sales of Common Stock	73	84	276
Cash Dividends Paid to Stockholders	(1,525)	(1,521)	(1,709)
Other Financing Activities	(64)	(128)	(105)
Net Cash Used in Financing Activities	(3,503)	(3,680)	(10,639)
Increase (Decrease) in Cash and Cash Equivalents	867	119	(154)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	35	(45)	(1)
Cash and Cash Equivalents at Beginning of Year	519	445	600
Cash and Cash Equivalents at End of Year	$ 1,421	$ 519	$ 445
SUPPLEMENTAL DISCLOSURE OF CASH PAYMENTS MADE FOR:			
Interest, net of interest capitalized	$ 664	$ 622	$ 672
Income Taxes	$ 2,082	$ 1,265	$ 2,524

(1) Fiscal years ended January 31, 2010 and February 1, 2009 include 52 weeks. Fiscal year ended February 3, 2008 includes 53 weeks.

See accompanying Notes to Consolidated Financial Statements.

d. Indicate how the journal entry in part **a** affects the company's current ratio (its current assets divided by its current liabilities). Do you believe that the activities summarized in this entry do, in fact, make the company any more or less liquid? Explain.

LO6 LO8

EXERCISE 9.12
Researching a Real Company

Locate an annual report in your library (or some other source) that includes a large gain or loss on the disposal of fixed assets. Report to the class the amount of the gain or loss and where in the company's income statement it is reported. Describe how the gain or loss is reported in the company's statement of cash flows. Summarize any discussion in the footnotes concerning the cause of the disposal.

LO4

EXERCISE 9.13
Units-of-Output Method

During the current year, Airport Auto Rentals purchased 60 new automobiles at a cost of $14,000 per car. The cars will be sold to a wholesaler at an estimated $5,000 each as soon as they have been driven 50,000 miles. Airport Auto Rentals computes depreciation expense on its automobiles by the units-of-output method, based on mileage.

a. Compute the amount of depreciation to be recognized for each mile that a rental automobile is driven.

b. Assuming that the 60 rental cars are driven a total of 1,770,000 miles during the current year, compute the total amount of depreciation expense that Airport Auto Rentals should recognize on this fleet of cars for the year.

c. In this particular situation, do you believe the units-of-output depreciation method achieves a better matching of expenses with revenue than would the straight-line method? Explain.

LO4

EXERCISE 9.14
Units-of-Production Depreciation Method

Dasher Company acquired a truck for use in its business for $25,500 in a cash transaction. The truck is expected to be used over a five-year period, will be driven approximately 18,000 miles per year, and is expected to have a value at the end of the five years of $4,500.

a. Compute the amount of depreciation that will be taken in the first two years of the truck's useful life if the actual miles driven are 16,000 and 18,200, respectively. Round the depreciation per mile to the nearest full cent.

b. How does the amount of accumulated depreciation at the end of the second year compare with what it would have been had the company chosen the straight-line depreciation method?

LO1 LO3

EXERCISE 9.15
Using the **Home Depot, Inc.,** Financial Statements to Determine Depreciation Methods Used

The **Home Depot** financial statements appear in Appendix A at the end of this textbook. Use these statements to answer the following questions and indicate where in the financial statements you found the information.

a. What depreciation method does **Home Depot** use for buildings, furniture, fixtures, and equipment? What are the useful lives over which these assets are depreciated?

b. From the notes to **Home Depot**'s financial statements, what can you learn about the company's policy regarding impairment of plant assets?

c. Locate **Home Depot**'s balance sheet and find the section entitled "Property and Equipment, at cost." As of January 31, 2010, determine the amount of the company's investment in property and equipment and the amount of depreciation taken to date on those assets. Are these assets, taken as a whole, near the beginning or end of their estimated useful lives? Explain your answer.

Problem Set A

connect ACCOUNTING

LO1 through LO3

PROBLEM 9.1A
Determining the Cost of Plant Assets

Wilmet College recently purchased new computing equipment for its library. The following information refers to the purchase and installation of this equipment:

1. The list price of the equipment was $275,000; however, Wilmet College qualified for an "education discount" of $25,000. It paid $50,000 cash for the equipment, and issued a three-month, 9 percent note payable for the remaining balance. The note, plus accrued interest charges of $4,500, was paid promptly at the maturity date.
2. In addition to the amounts described in **1,** Wilmet paid sales taxes of $15,000 at the date of purchase.
3. Freight charges for delivery of the equipment totaled $1,000.
4. Installation costs related to the equipment amounted to $5,000.